

NEWS RELEASE

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COMMISSIONER OF BANKS

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N.C. Commissioner of Banks urges financial regulatory reform and restraint on behalf of State Bank Regulators

RALEIGH—N.C. Commissioner of Banks Joseph A. Smith, Jr., called today for financial regulatory reform to end “too big to fail” institutions and to promote the recovery of local banks in a speech before the Exchequer Club of Washington, D.C.

“My colleagues in CSBS and I are of the view that the United States needs and deserves a diverse, competitive and durable banking system that contributes to the economic recovery and provides the financial products, services and innovation necessary to promote the economic health of local communities and our nation over the long term,” said Commissioner Smith.

However, the Commissioner stated that federal policy has failed to promote a diverse banking system by propping up “too big to fail” banks at the expense of supporting community banks. While federal intervention has essentially guaranteed “too big to fail” institutions, he said, the economic downturn and federal regulatory policy has weakened a significant number of community and regional banks..

The Commissioner called for the following steps to bring the banking industry back to health:

- **Continue the clear-eyed assessment of the current values of assets, but do not stress-test community banks out of existence.** The Commissioner said regulators and bankers should address asset valuation issues squarely and not delude themselves that asset values (particularly real estate related asset values) will recover to prior levels simply through the passage of time. However, at the same time, federal regulators must give banks time to work through problems, rather than piling on with new supervisory restrictions based on worst-case scenarios.
- **Promote capital investments in community banks.** In addition to increasing capital through new offerings of stock, community banks could benefit from faster regulatory consideration of private equity investments. As federal regulators are demanding increased capital, it is important for them to reduce regulatory roadblocks and delays that have hindered recapitalization of smaller banks. Unnecessary delays and obstacles to investment accelerate bank failures, at a high cost to the deposit insurance fund.
- **Redirect TARP funds to community banks and to promote small business lending.** The TARP program has been directed primarily to banks that were either too big to fail or that did not need the capital. The Administration proposal to redirect TARP to promote small business is welcome and would enable community and regional banks to expand their lending to creditworthy customers. In addition, TARP investment can and should be allowed to stabilize struggling banks to prevent unnecessary bank failures.

"I am concerned that by delaying or preventing investment, we will lose a good opportunity to heal our banks," said Commissioner Smith.

The Commissioner concluded his speech by asking everyone to set aside differences over a number of policy issues and to focus instead on healing the industry and preparing it for the future.

The Commissioner's speech may be found at:

<http://www.nccob.org/NCCOB/Researchers/CommissionersPage/>.

The Exchequer Club of Washington, D.C. was formed in 1960. Its primary purpose is to provide a frank and open forum on national economic, financial and political matters.

NCCOB regulates state-chartered banks, thrifts, savings and loans, trust companies, and more than 600 mortgage lenders/servicers/brokers and 6,000 loan officers, as well as numerous consumer finance companies, check-cashers, and other financial services. NCCOB is funded by industry fees and assessments and not taxpayer dollars.

CSBS is the nationwide organization for state bank regulation, representing the bank regulators of the 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. State authorities supervise approximately 6,000 state-chartered financial institutions. Further, the majority of state banking departments also oversee mortgage providers and other financial service providers. CSBS is also responsible for improving the quality of state bank supervision by providing performance evaluation and accreditation programs for the banking departments, as well as supervisory education and training programs for state personnel.

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